HESPERIA FIRE PROTECTION DISTRICT

COMPONENT UNIT FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

WITH REPORT ON AUDIT BY
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2012

June 30, 2012

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Hesperia Fire Protection District
Hesperia, California

We have audited the accompanying financial statements of the governmental activities of the Hesperia Fire Protection District (a component unit of the City of Hesperia) as of and for the year ended June 30, 2012, as listed in the table of contents. These component unit financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the Hesperia Fire Protection District as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress for DPHP and budgetary comparison schedule on pages 3-7 and 28-30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the management's discussion and analysis and the schedule of funding progress in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Offices located in Orange and San Diego Counties

The budgetary comparison schedule and related note have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

White Nelson Diehl Evans LLP

January 29, 2013
Carlsbad, California

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Hesperia Fire Protection District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The total cost of all District programs was $9.5 million, reflecting a decrease of about $0.5 million from the June 30, 2011 cost of $10.0 million. This is attributed to the reduction in staffing level of safety personnel from 53 to 44 employees that was implemented midway through the fiscal year. This staffing reduction was due to the failed parcel tax vote in November 2011.

- The District's net assets increased 119.2% to $12.3 million from $5.6 million as a result of this year's operations. The increase is primarily due to the City of Hesperia's $3.7 million net capital contribution of Fire Station 305 and $3.7 million from the dissolution of the Hesperia Community Redevelopment Agency (HCRA), which occurred on February 1, 2012.

- As presented in the Statement of Activities, the District's revenues exceeded expenses by $2.9 million. This is primarily due to the $3.7 million net capital contribution, representing the transfer of Fire Station 305, which was previously recorded as a City of Hesperia capital asset.

- The total revenues from all sources, as presented in the Statement of Revenues, Expenditures, and Changes in Fund Balances, is $8.8 million, which represents a 12.8% decrease from the June 30, 2011 revenue of $10.1 million. The June 30, 2011 revenue included an operating grant from the City of Hesperia of $1.9 million. Without the City's operating grant contribution in the prior fiscal year, the total revenue would have been $8.2 million, which would show a $0.6 million, or 7.3% increase for June 30, 2012. The increase is primarily attributed to the 21.4% or $0.5 million increase in Charges for Services revenue.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The District's financial activities, recorded in one Special Revenue fund and one capital project fund, tell how these services were financed in the short term as well as what remains for future spending.

REPORTING THE DISTRICT AS A WHOLE

The financial statements presented herein include all the activities of the Hesperia Fire Protection District using the integrated approach as prescribed by GASB Statement No. 34.

Government-Wide Financial Statements

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of this year's activities?" The Government-Wide Statements – The Statement of Net Assets and the Statement of Activities – report information about the District as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in them. You can think of the District's net assets—the difference between assets and liabilities—as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating.

The Statement of Net Assets and the Statement of Activities, present information about the District's basic services which are considered to be governmental activities, primarily public safety. Property taxes and charges for services finance most of these activities.

REPORTING THE DISTRICT'S FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the District's fund—and the District as a whole. The District uses *governmental funds* to account for its operations.

Governmental funds—The District's basic services are reported in governmental funds, which focuses on how money flows into and out of the funds and the balance left at year-end that is available for spending. The funds are reported using an accounting method called the *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and the governmental *funds* in reconciliation schedules following the fund financial statements.

THE DISTRICT AS A WHOLE

Our analysis focuses on the net assets (Table 1) and activities (Table 2) of the District's governmental activities. The Condensed Statement of Net Assets presents capital assets net of the debt incurred to pay for those assets. Currently, the District has no outstanding debt related to its capital assets thereby showing the full value of the District's assets.

Table 1
Condensed Statement of Net Assets

			Changes from 2011 to 2012	
	2011	2012	Amount	Percentage
Current and other assets	$ 2,313,588	$ 5,769,287	$ 3,455,699	149.4%
Capital assets	3,381,762	9,861,329	6,479,567	191.6%
Total Assets	5,695,350	15,630,616	9,935,266	174.4%
Current and other liabilities	8,053	3,235,790	3,227,737	40081.2%
Long-term debt outstanding	73,307	92,849	19,542	26.7%
Total Liabilities	81,360	3,328,639	3,247,279	3991.2%
Net Assets:				
Invested in capital assets	3,381,762	9,861,329	6,479,567	191.6%
Restricted	-	-	-	0.0%
Unrestricted	2,232,228	2,440,648	208,420	9.3%
Total Net Assets	$ 5,613,990	$ 12,301,977	$ 6,687,987	119.1%

The following are brief explanations for the balance change of each line of Table 1 above for the year ending June 30, 2012:

- Current and other assets – increased by $3.5 million or 149.4%. This increase is primarily due to $3.7 million of cash received as part of the dissolution of the Hesperia Community Redevelopment Agency (HCRA), which occurred on February 1, 2012.
- Capital assets – increased by $6.5 million resulting from the City of Hesperia's contribution of Fire Station 305 and the net of FY 2011-12 depreciation of assets.
- Current and other liabilities – increased by $3.2 million from June 30, 2011, which is due to the timing of the payment of invoices in accounts payable and the increase in the Net OPEB obligation, and the deferred revenue associated with Fire Station 305.
- Long-term debt outstanding – the increase of $19,542 is the result of incurring additional claims payable liability during the fiscal year.
- Invested in capital assets – The increase of $6.5 million or 191.6% is related to the Capital contribution related to Fire Station 305, which was reflected as a capital asset of the City of Hesperia at June 30, 2011.

GOVERNMENTAL ACTIVITIES

Table 2
Condensed Statement of Activities

	2011	2012	Changes from 2011 to 2012 Amount	Percentage
Revenues				
Program revenues:				
Charges for services	$ 2,219,748	$ 2,694,405	$ 474,657	21.4%
Capital contributions and grants	-	3,845,571	3,845,571	n/a
General revenues:				
Taxes:				
Property taxes	5,717,374	5,873,874	156,500	2.7%
Income from money and property	57,234	64,474	7,240	12.6%
Other	1,920,941	-	(1,920,941)	-100.0%
Total revenues	9,915,297	12,478,324	2,563,027	25.8%
Expenses				
Public Safety-Fire	10,032,325	9,532,972	(499,353)	-5.0%
Total expenses	10,032,325	9,532,972	(499,353)	-5.0%
Excess/(Deficiency) of revenues over/ (under) expenses	(117,028)	2,945,352	3,062,380	2616.8%
Change in net assets	(117,028)	2,945,352	3,062,380	2616.8%
Net assets at July 1,	5,731,018	5,613,990	(117,028)	-2.0%
Extraordinary gain/(loss)	-	3,742,635	3,742,635	n/a
Net assets at June 30,	$ 5,613,990	$ 12,301,977	$ 6,687,987	119.1%

The cost of all governmental activities this year was $9.5 million, a decrease of 5.0% over the June 30, 2011 cost of $10.0 million. The $1.9 million grant from the City in FY 2010-11 was one-time revenue. Other significant changes to take note of in Table 2 are:

- The June 30, 2012 combined property tax revenue and RDA pass-through revenues of $5.9 million showed a $156,500 or 2.7% increase from June 30, 2011.

- Charges for services, those billed directly to recipients of the District's services, increased 21.4% or $474,657 over the $2.2 million at June 30, 2011. This increase is primarily due to paramedic ambulance fee revenues being higher than the previous fiscal year, and due to the efforts of the new billing contractor which started in late FY 2010-11.

- The $3.7 million net Capital Contributions and Grants was for the transfer of Fire Station 305 from the City of Hesperia to the District.

- The District's expenses decreased by 5.0% or about $0.5 million from the expenses at June 30, 2011. The primary reason for this was the reduction in staffing level of safety personnel from 53 to 44 employees that was implemented midway through the fiscal year.

The District's programs are primarily Public Safety.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At year-end the District's Fire Operations fund reported a balance of $1.4 million, which is a decrease of about $0.3 million or 19.1% from June 30, 2011's ending fund balance of $1.7 million. This was primarily due to paying for the 9 contract positions for 7 months into the fiscal year compared to the 2011-12 Budget proposing the elimination of the positions at the beginning of fiscal year.

The Fire Station Building fund balance totaled $4.0 million. Prior to the dissolution of redevelopment agencies, the Hesperia Community Redevelopment Agency (HCRA) retained these funds for future capital transactions to be constructed on behalf of the District. On February 1, 2012, the funds were transferred to the District as part of the dissolution process.

CAPITAL ASSETS

The capital assets of the District are those assets that are used in the performance of the District's functions. At June 30, 2012, capital assets, net of depreciation, of the governmental activities totaled $9.9 million. Depreciation on capital assets is recognized in the Government-Wide financial statements (See Table 3 below).

Table 3
Capital Assets at Year-End

	Balance at June 30, 2011 Net of Accumulated Depreciation	Increases	Decreases	Current Year Depreciation	Balance at June 30, 2012 Net of Accumulated Depreciation
Land	$ 855,329	$ -	$ -	$ -	$ 855,329
Land improvements	17,947	-	-	(3,193)	14,754
Vehicles	1,456,382	-	-	(257,894)	1,198,488
Machinery and equipment	103,577	-	-	(25,031)	78,546
Buildings and improvements	948,527	7,065,571	-	(299,886)	7,714,212
	$ 3,381,762	$ 7,065,571	$ -	$ (586,004)	$ 9,861,329

DEBT ADMINISTRATION

Debt, considered a liability of governmental activities, increased in FY 2011-12 by $19,542 from changes in claims payable.

Table 4
Outstanding Debt, at Year-end

	Principal Balance at June 30, 2011	Additions	Deletions	Principal Balance at June 30, 2012	Due Within One Year
Claims Payable	$ 73,307	$ 301,055	$ (281,513)	$ 92,849	$ -
	$ 73,307	$ 301,055	$ (281,513)	$ 92,849	$ -

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Fire District implemented a staffing level decrease midway through the fiscal year, which significantly reduced the District's expenditures, but revenues were slightly lower which resulted in excess of expenditures over revenues. The reduction in staffing level of safety personnel from 53 to 44 employees was implemented in January of 2012 in order to reduce costs while minimizing the service level reduction to the greatest extent possible. Due to the reduction in staff, the District's contract with the County decreased in expenditures by nearly 10% compared to its costs in the prior fiscal year. Although the proposed staffing level decrease was delayed and did not go into effect at the beginning of fiscal year 2011-12, the staffing level decrease did reduce costs within the District while still maintaining adequate fire services throughout the City of Hesperia.

In fiscal year 2012-13, expenditures for the Fire District are expected to decrease further as the staffing level decrease will be in effect for the full fiscal year. The relocation and reduction of Fire Prevention staff to the County Government Center, across from City Hall, represents a sharing of the staff between the City and the County will continue to be in effect and provide a cost savings of $100,000. The reductions in expenditures should help alleviate the steady decline in net assets that the District has experienced over the past several years.

There are no planned vehicle purchases for the 2012-13 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Finance Division, at the City of Hesperia, 9700 Seventh Avenue, Hesperia, California 92345.

STATEMENT OF NET ASSETS
June 30, 2012

ASSETS

Current Assets:	
Cash and cash equivalents	$ 4,963,247
Accounts receivable	518,126
Accrued interest	3,678
Due from other governmental agencies	109,754
Total Current Assets	5,594,805
Noncurrent Assets:	
Deposits	174,482
Capital assets:	
Not being depreciated:	
Land	855,329
Being depreciated:	
Land improvements	138,813
Vehicles	4,574,750
Machinery and equipment	424,793
Buildings and improvements	8,573,585
Less: Accumulated depreciation	(4,705,941)
Total Capital Assets	9,861,329
Total Noncurrent Assets	10,035,811
Total assets	$ 15,630,616

See accompanying independent auditors' report and notes to financial statements.

LIABILITIES

Current Liabilities:	
Accounts payable and other current liabilities	$ 4,610
Total Current Liabilities	4,610
Noncurrent Liabilities:	
Net OPEB obligation	11,180
Unearned revenue	3,220,000
Long-term debt-due in more than one year	92,849
Total Noncurrent Liabilities	3,324,029
Total liabilities	3,328,639

NET ASSETS

Invested in capital assets	9,861,329
Restricted	-
Unrestricted	2,440,648
Total net assets	$ 12,301,977

See accompanying independent auditors' report and notes to financial statements.

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense)/ Revenue and Changes in Net Assets: Governmental Activities
Primary Government					
Governmental activities:					
Public Safety- Fire	$ 9,532,972	$ 2,694,405	$ -	$ 3,845,571	$ (2,992,996)
Total governmental activities	$ 9,532,972	$ 2,694,405	$ -	$ 3,845,571	(2,992,996)

General Revenues:	
Property taxes	5,873,874
Income from money and property	64,474
Total general revenues	5,938,348
Extraordinary gain	3,742,635
Change in net assets	6,687,987
Net assets at beginning of year	5,613,990
Net assets at end of year	$ 12,301,977

See accompanying independent auditors' report and notes to financial statements.

BALANCE SHEET
June 30, 2012

	Fire Operations	Fire Station Building	Total Governmental Funds
Assets			
Cash and cash equivalents	$ 1,003,211	$ 3,960,036	$ 4,963,247
Accounts receivable	518,126	-	518,126
Accrued interest	780	2,898	3,678
Due from other governmental agencies	109,754	-	109,754
Total Assets	$ 1,631,871	$ 3,962,934	$ 5,594,805
Liabilities and Fund Balances			
Liabilities:			
Accounts payable and other current liabilities	$ 4,610	$ -	$ 4,610
Deferred revenue	245,504	-	245,504
Total Liabilities	250,114	-	250,114
Fund Balances:			
Restricted:			
Public safety	1,381,757	3,962,934	5,344,691
Total Fund Balances	1,381,757	3,962,934	5,344,691
Total Liabilities and Fund Balances	$ 1,631,871	$ 3,962,934	$ 5,594,805

See accompanying independent auditors' report and notes to financial statements.

RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2012

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total fund balance - governmental funds	$ 5,344,691
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	9,861,329
Deposits with insurance providers to pay for long-term liabilities are not current financial resources to the governmental funds. These amounts are deferred and amortized in the Statement of Activities.	174,482
The net OPEB Obligation is not due and payable in the current period, and therefore is not reported in the governmental funds balance sheet.	(11,180)
The CFD 2005-1 has received special assessments and did not remit these to the fire protection district within the availability period. These revenues are recognized in the government-wide statements and deferred in the fund statements.	245,504
The lease agreement between the District and the County provides current financial resources to the governmental funds. These amounts are deferred amortized in the Statement of Activities.	(3,220,000)
Long-term liabilities are not due and payable in the current period, and therefore are not reported in the governmental funds balance sheet.	(92,849)
Net Assets of governmental activities	$ 12,301,977

See accompanying independent auditors' report and notes to financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year ended June 30, 2012

	Fire Operations	Fire Station Building	Total Governmental Funds
Revenues:			
Taxes	$ 5,830,109	$ 211,304	$ 6,041,413
Use of money and property	55,479	8,995	64,474
Charges for services	2,694,405	-	2,694,405
Total Revenues	8,579,993	220,299	8,800,292
Expenditures:			
Public safety- fire	8,905,831	-	8,905,831
Total Expenditures	8,905,831	-	8,905,831
Excess (Deficiency) of Revenues Over (Under) Expenditures	(325,838)	220,299	(105,539)
Extraordinary Gain:			
Dissolution of redevelopment agency	-	3,742,635	3,742,635
Total extraordinary gain	-	3,742,635	3,742,635
Net Change in Fund Balances	(325,838)	3,962,934	3,637,096
Fund balances at beginning of year	1,707,595	-	1,707,595
Fund balances at end of year	$ 1,381,757	$ 3,962,934	$ 5,344,691

See accompanying independent auditors' report and notes to financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds	$ 3,637,096
The governmental fund reports capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	(586,004)
The CFD 2005-1 has received special assessments and did not remit these to the fire protection district within the availability period. These revenues are recognized in the government-wide statements and deferred in the fund statements. During the current period, some remittance was recognized and decreased the deferral in the fund statements.	(167,539)
Decrease in long-term deposits are included in governmental activities in the government-wide statement of activities.	(15,987)
OPEB expense is recognized when paid in the Statement of Revenues, Expenditures, and Changes in Fund Balances, and recognized in the period when incurred in the Statement of Activities.	(5,608)
Increase in claims payable are included in governmental activities in the government-wide statement of activities	(19,542)
The revenue for the lease agreement between the District and the County is being recognized and deferred on the Statement of Activities over the life of the lease, and was previously recognized as a current financial resource on the governmental funds. This was previously recognized on the Statement of Revenues, Expenditures, and Changes in Fund Balances.	140,000
Increase of Capital Grants and Contributions to reflect capital asset contributed by the City of Hesperia to the District, net of deferred revenue.	3,705,571
Change in Net Assets of governmental activities	$ 6,687,987

See accompanying independent auditors' report and notes to financial statements.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

a. Description of Reporting Entity:

The Hesperia Fire Protection District (the District) is a subsidiary district of the City of Hesperia. Its mission is to protect the health and safety of the people who reside, visit, or work in the community. The District is the City of Hesperia's lead agency for dealing with natural disasters such as earthquakes, floods, storms, and other emergencies related to fire, explosion, hazardous materials, rescue, and medical services.

The District is an integral part of the reporting entity of the City of Hesperia (the City). The accounts of the District have been included within the scope of the basic financial statements of the City because the City Council has financial accountability over the operations of the District. Only the accounts of the District are included herein, therefore, these financial statements do not purport to represent the financial position or results of operations of the City of Hesperia. Upon completion, the financial statements of the City can be obtained at City Hall.

b. Basis of Presentation:

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as they are applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies reflected in the financial statements are summarized as follows:

Government-Wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Hesperia Fire Protection District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Hesperia Fire Protection District has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

   b. Basis of Presentation (Continued):

      Governmental Fund Financial Statements:

      The accounting system of the Hesperia Fire Protection District is organized and operated on the basis of two funds, each of which is considered to be a complete accounting entity. The funds are accounted for by providing a set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in the individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

      Fund financial statements for the Hesperia Fire Protection District's governmental funds are presented after the government-wide financial statements. These statements display information about major funds individually. The District's governmental fund balances are comprised of the following components:

      - Nonspendable fund balance typically includes inventories, prepaid items, and other items that by definition are not in spendable form or legally or contractually required to be maintained intact.
      - The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
      - The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District Board. The District Board has authority to establish, modify, or rescind a fund balance commitment.
      - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. The District Administrator or designee has the authority to establish, modify, or rescind a fund balance assignment.
      - Unassigned fund balance is the residual classification for the District's fund and includes all spendable amounts not contained in the other classifications. Unassigned fund balance in other governmental funds is limited to any negative residual fund balance after fund balance has been classified as restricted, committed, or assigned.

      In the government-wide statements, the District considers restricted funds to be spent first then unrestricted amounts when expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available. In the governmental fund statements, when expenditures are incurred, the District uses the most restrictive funds first. The District would use the appropriate funds in the following order: committed, assigned, and lastly unassigned amounts.

      The District has two major funds described below:

      <u>Fire Operations</u> – is used to accounts for the District's operations activities.

      <u>Fire Station Building</u> – is used to account for the District's capital acquisition activities.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c. Measurement Focus:

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

In the government-wide Statement of Net Assets and the Statement of Activities, activities are presented using the economic resources measurement focus. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the government are reported.

In the fund financial statements, all governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balances (net current assets) are considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as a fund asset. The proceeds of long-term debt are recorded as other financing sources rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

In the Statement of Net Assets, net assets are classified in the following categories:

- Invested in capital assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction or improvement of the assets.
- Restricted net assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
- Unrestricted net assets – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets".

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d. Basis of Accounting:

In the government-wide Statement of Net Assets and Statement of Activities, the governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented using the modified-accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Locally imposed derived tax revenues are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. Imposed nonexchange transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary nonexchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

e. Property Taxes:

Real property taxes are levied on October 15 against owners of record at January 1. The taxes are due in two installments, on November 1 and February 1, and become delinquent after December 10 and April 10, respectively. Tax liens attach annually as of 12:01 a.m. on the first day of January in the fiscal year for which the taxes are levied. Under the provisions of NCGA interpretation 3, property tax revenue is recognized in the fiscal year for which the taxes have been levied, provided it is collected within 60 days of the end of the fiscal year.

f. Cash and Investments:

Investments are stated at fair value (quoted market price or best available estimate thereof, see Note 2).

g. Claims and Judgments:

When it is probable that a claim liability has been incurred at year end, and the amount of the loss can be reasonably estimated, the District records the estimated loss, net of any insurance coverage under its self-insurance program. At June 30, 2012, in the opinion of the District's Attorney, the District had no material unrecorded claims, which would require loss provision in the financial statements, including losses for claims, which are Incurred But Not Reported (IBNR). Small dollar claims and judgments are recorded as expenditures when paid.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

h. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

i. Capital Assets:

Capital assets, which include land, buildings, building improvements, and equipment are depreciated and are reported in the government-wide financial statements. District policy has set the capitalization threshold for reporting capital assets at $5,000.

Capital assets have an estimated useful life greater than one year and are valued at historical cost or estimated cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciation is charged to operations using the straight-line method based on the estimated useful life of an asset. Land is not depreciated.

Buildings	30-50 Years
Improvements	20 Years
Machinery and Equipment	5-30 Years
Vehicles	8-20 Years

j. Receivables:

All accounts, taxes, and service receivables are shown net of an allowance for uncollectibles.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS:

Cash and Investments

Cash and investments at June 30, 2012 are classified in the accompanying financial statements as follows:

STATEMENT OF NET ASSETS:	June 30, 2012
Current Assets:	
Cash and cash equivalents	$ 4,963,247
Total cash and cash equivalents	$ 4,963,247

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued):

Investments Authorized by the California Government Code and the District's Investment Policy:

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	100%	None
U.S. & State or Local Agency Securities	5 years	100%	None
Banker's Acceptances	180 days	25%	5%
Commercial Paper	270 days	15%	None
Negotiable Certificates of Deposit	5 years	25%	None
Repurchase Agreements	1 year	20%	None
Local Agency Investment Fund (LAIF)	N/A	100%	None
Medium-Term Notes	5 years	30%	None
Mutual & Money Market Funds	90 days	20%	None
Collateralized Bank Deposits	5 years	10%	None
Investment Pools	N/A	30%	None
Municipal Bonds	5 years	10%	None

Disclosures Related to Interest Rate Risk, Credit Risk and Custodial Credit Risk:

The District's cash and cash equivalents are pooled with the City of Hesperia's cash and investments. Additional disclosures regarding $4,963,247 pooled investments related to interest rate risk, credit risk and custodial credit risk are available in the City of Hesperia's Comprehensive Annual Financial Report.

Investment in State Investment Pool:

The Hesperia Fire Protection District participates in the City of Hesperia's investment pool which is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Hesperia Fire Protection District's share of investment in this pool is reported in the accompanying financial statements at amounts based upon the Hesperia Fire Protection District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

3. LEASE AGREEMENT:

During the fiscal year ended June 30, 2010, the Fire District entered into an agreement with the County of San Bernardino for the joint use of fire station 305. The lease agreement is for a term of twenty-five (25) years, with a total County contribution of the fire station and related improvements of $3,500,000. During the year ended June 30, 2008, the County paid the Fire District the entire $3,500,000, which is being reported as unearned revenue on the Statement of Net Assets. Revenue is being recognized for the amount paid by the County to the Fire District

3. LEASE AGREEMENT (Continued):

on a straight line basis over the life of the lease of twenty-five (25) years. The construction of the fire station was completed on June 30, 2010. The Fire District is responsible for major structural repairs and seventy percent (70%) of the maintenance and utilities, and the County is responsible for thirty percent (30%) of the maintenance and utilities. In the event that the lease is terminated, there are provisions in the agreement that dictate the fiscal impact upon each party. Through June 30, 2012, the remaining balance of the unearned revenue is $3,220,000.

4. CHANGES IN CAPITAL ASSETS:

A summary of changes in capital assets for the year ended June 30, 2012 is as follows:

	Balance at June 30,2011	Increases	Decreases	Balance at June 30,2012
Capital Assets, not being depreciated				
Land	$ 855,329	$ -	$ -	$ 855,329
Total capital assets, not being depreciated	855,329	-	-	855,329
Capital Assets being depreciated:				
Land Improvements	138,813	-	-	138,813
Vehicles	4,574,750	-	-	4,574,750
Machinery and equipment	424,793	-	-	424,793
Buildings and improvements	1,508,014	7,065,571	-	8,573,585
Total capital assets, being depreciated	6,646,370	7,065,571	-	13,711,941
Less accumulated depreciation for:				
Land Improvements	(120,866)	(3,193)	-	(124,059)
Vehicles	(3,118,368)	(257,894)	-	(3,376,262)
Machinery and equipment	(321,216)	(25,031)	-	(346,247)
Building and improvements	(559,487)	(299,886)	-	(859,373)
Total accumulated depreciation	(4,119,937)	(586,004)	-	(4,705,941)
Total capital assets, being depreciated, net	2,526,433	(586,004)	-	9,006,000
Governmental-type activities capital assets,net	$ 3,381,762	$ 6,479,567	$ -	$ 9,861,329

Depreciation expense for the year ended June 30, 2012 charged to the Public Safety-Fire function was $586,004.

5. LONG-TERM DEBT:

Following is a summary of the changes in principal balance of long-term debt for the year ended June 30, 2012:

	Principal Balance at June 30,2011	Additions	Deletions	Principal Balance at June 30,2012	Due Within One Year
Claims Payable	$ 73,307	$ 301,055	$ (281,513)	$ 92,849	$ -
Total Long-Term Debt	$ 73,307	$ 301,055	$ (281,513)	$ 92,849	$ -

6. PUBLIC EMPLOYEES RETIREMENT SYSTEM:

Plan Description:

The District's employees participate in the Miscellaneous 2% at 55 Risk Pool (Plan) of the California Public Employees' Retirement System (CalPERS). This plan is a cost-sharing, multiple-employer defined benefit pension plan administered by CalPERS. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. Copies of CalPERS' annual financial report may be obtained from the CalPERS Executive Office: 400 P Street, Sacramento, CA 95814.

Funding Policy:

Participants are required to contribute 7% of their annual covered salary. The District made the contributions required of District employees on their behalf and for their account. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution for this year into the plan for the fiscal year ended June 30, 2012 was 0.0%, for both miscellaneous and safety, of their annual covered payroll. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. The District's employer contribution for the last three fiscal years, which were equal to the required contribution each year were $10,324, $7,629 and $7,436 for the years ended June 30, 2012, 2011 and 2010 respectively. CalPERS does not provide individual plan trend information for risk pools. Effective June 2005 the District had no employees (See Note 8).

7. OTHER POST EMPLOYMENT BENEFITS:

Plan Description:

The District's defined benefit postemployment healthcare plan (DPHP), provides medical benefits to eligible retired District employees and beneficiaries. DPHP is part of the Public Agency portion of the California Employers' Retiree Benefit Trust Fund (CERBT), an agent multiple-employer plan administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statute within the Public Employees' Retirement Law. DPHP selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through District resolution. CalPERS issues a separate Comprehensive Annual Financial Report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy:

The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. DPHP members receiving benefits contribute based on their selected plan options. The District makes all contributions of the plan members. Effective June 2005 the District had no employees (See Note 8).

Annual OPEB Cost and Net OPEB Obligation/Asset:

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is

7. OTHER POST EMPLOYMENT BENEFITS (Continued):

projected to cover the normal annual cost. Any unfunded actuarial liability (or funding excess) is amortized over a period not to exceed thirty years. The current ARC rate is 3.4% of the annual covered payroll.

The following table shows the components of the District's annual OPEB cost for the year ending June 30, 2012, the amount actually contributed to the plan, and changes in the District's net OPEB obligation/asset:

Annual Required Contribution (ARC)	$	6,000
Interest on net OPEB obligation		516
Adjustment to Annual Required Contribution (ARC)		(528)
Annual OPEB cost (expense)		5,988
Contributions made		(380)
Increase in net OPEB obligation		5,608
Net OPEB obligation - beginning of year		5,572
Net OPEB obligation - end of year	$	11,180

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years 2012, 2011, and 2010 were as follows:

THREE-YEAR TREND INFORMATION FOR CERBT

Fiscal Year		Annual OPEB Cost (AOC)	Percentage of OPEB Cost Contributed		Net OPEB Obligation
6/30/2012	$	5,988	6.4%	$	11,180
6/30/2011		5,000	6.0%		5,572
6/30/2010		4,400	80.2%		872

Funded Status and Funding Progress:

The funded status of the plan as of June 30, 2010, the most recent actuarial valuation date, was as follows:

Actuarial Accrued Liability (AAL)	$	109,000
Actuarial Value of Plan Assets		-
Unfunded Actuarial Accrued Liability (UAAL)	$	109,000
Funded Ratio (Actuarial Value of Plan Assets/AAL)		0.0%
Covered Payroll (Active Members)		-
UAAL as a Percentage of Covered Payroll		0.0%

Actuarial Methods and Assumptions:

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as

7. OTHER POST EMPLOYMENT BENEFITS (Continued):

required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2010
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	28 Years as of the Valuation Date
Asset Valuation method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	4.25% (Net of Administrative Expenses)
Projected Salary Increase	3.25%
Inflation	3.00%
PEMHCA Minimum Growth	4.25%
Individual Salary Growth	CalPERS 1997-2007 Experience Study

8. FIRE PROTECTION SERVICES AGREEMENT:

The Hesperia Fire Protection District entered into a fire protection services agreement with the San Bernardino County Consolidated Fire District (County) effective June 1, 2004. The agreement calls for the County to provide to the District fire prevention, fire investigation, fire suppression, advanced life support services, ambulance transportation service, hazardous materials, and rescue services. The District paid $8,555,920 to the County for these services during the fiscal year ending June 30, 2012. The County will also provide various administrative duties including billing and collecting of advanced life support and ambulance transportation fees for the District. The District leases its real property, furniture and fixtures, and fire vehicles and equipment to the County for one dollar per year. The agreement calls for the County to maintain insurance for workers compensation, comprehensive general and automobile.

9. SELF-INSURANCE RISK POOL:

Public Entity Risk Management Authority:

The Fire District is a member of the Public Entity Risk Management Authority (PERMA), a joint powers authority of 31 California cities and districts, for the purpose of pooling the District's risk for worker's compensation insurance with those of other member cities and districts. The Governing Board of PERMA is comprised of directors nominated and selected by each member city and district. Each governing board member has one vote regarding all financial and management issues coming before the Board.

Each member is billed annually and premiums are paid quarterly. Estimated premiums for claims to be paid and a reserve are advanced upon joining PERMA. Each year PERMA adjusts its premiums based on District payroll figures, claims paid, and claims incurred but not reported. The

9. SELF-INSURANCE RISK POOL (Continued):

Public Entity Risk Management Authority (Continued):

District receives audited financial statements of PERMA each year which have been audited by other auditors.

The District is self-insured for the first $250,000 of each claim, pertaining to Worker's Compensation Liability Coverage, and PERMA will assume each claim's liability between $250,000 and $500,000. For any Worker's Compensation Liability claim exceeding $500,000, the District is insured by Excess Insurer's Limited Liability for up to $5,000,000 of each claim. For General Liability, the District is self-insured for up to $50,000. PERMA will assume each claim exceeding $50,000 to $1,000,000. For all General Liability claims exceeding $1,000,000, the District is insured by Excess Insurers Limit of Liability for up to $50,000,000.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. There have been no significant reductions in insurance coverage from the prior year. Settlements have not exceeded insurance coverage for each of the past three fiscal years.

Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended June 30, 2012	Year Ended June 30, 2011
Unpaid Claims, Beginning of Fiscal Year	$ 73,307	$ 89,380
Incurred Claims	301,055	182,943
Claim Payments	(281,513)	(199,016)
Unpaid Claims, End of Fiscal Year	$ 92,849	$ 73,307

The Unpaid claims of $92,849 above are a component of long-term debt (Note 4). Due to the uncertainty of when the claims will be paid none are considered due within one year.

10. EXTRAORDINARY GAIN:

The District received assets from the former Hesperia Community Redevelopment Agency (HCRA) that was dissolved as a result of Assembly Bill 1x26, which was passed by the California Legislature on June 27, 2011. The former redevelopment agency transferred $3,742,635 of cash retained for the construction or acquisition of capital assets. Prior to the dissolution, the negotiated pass-through agreements for Project Area 1 and Project Area 2 mandated that the HCRA retain 25% of the total pass-through obligation paid to the District for the acquisition of capital assets on the District's behalf. After the dissolution, the District now collects the 25% formally retained for capital acquisitions.

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REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
FIRE DISTRICT SPECIAL REVENUE FUND
For the year ended June 30, 2012

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
Fund Balance, July 1	$ 1,707,595	$ 1,707,595	$ 1,707,595	$ -
Resources (Inflows):				
Taxes	5,885,639	5,885,639	5,830,109	(55,530)
Use of money and property	54,231	54,231	55,479	1,248
Charges for services	2,446,704	2,446,704	2,694,405	247,701
Amount Available for Appropriations	8,386,574	8,386,574	8,579,993	193,419
Charges to Appropriations (Outflows):				
Current:				
Public safety - fire	9,479,780	9,615,766	8,905,831	709,935
Total Charges to Appropriations	9,479,780	9,615,766	8,905,831	709,935
Excess of Resources Over (Under) Charges To Appropriations	(1,093,206)	(1,229,192)	(325,838)	903,354
Fund Balance, June 30	$ 614,389	$ 478,403	$ 1,381,757	$ 903,354

See accompanying independent auditors' report and note to required supplementary information.

Schedule of Funding Progress for DPHP

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded (Over Funded) AAL (UAAL) (B - A)	Funded Ratio (A / B)	Covered Payroll (C)	UAAL as a % of Covered Payroll (B - A / C)
6/30/2010:						
Fire	$ -	$ 109,000	$ 109,000	0.0%	$ -	0.0%
Total	$ -	$ 109,000	$ 109,000	0.0%	$ -	0.0%
6/30/2009:						
Fire	n/a	n/a	n/a	n/a	n/a	n/a
Total	n/a	n/a	n/a	n/a	n/a	n/a
6/30/2008:						
Fire	$ -	$ 99,000	$ 99,000	0.0%	$ -	0.0%
Total	$ -	$ 99,000	$ 99,000	0.0%	$ -	0.0%

N/A: The Fire District is only required to perform actuarial valuations biennially. An actuarial valuation was not prepared for the years ending June 30, 2011 and June 30, 2012.

See accompanying independent auditors' report and note to required supplementary information.

June 30, 2012

1. BUDGETARY DATA:

The District adopts a budget for the special revenue fund each year. The Board approves each year's budget submitted by the Fire Chief and the City Manager prior to the beginning of the new fiscal year. Public hearings are conducted prior to its adoption by the Board. Supplemental appropriations, when required during the period, are also approved by the Board. In most cases, expenditures may not exceed appropriations at the fund level. At fiscal year-end, all operating budget appropriations lapse. However, encumbrances at year end are reported as reservations of fund balance. The budget for the special revenue fund is adopted on a basis consistent with generally accepted accounting principles.